

Bell Atlantic
1300 I Street N.W.
Suite 400W
Washington, DC 20005

July 21, 1998



Ex Parte

EX PARTE OR LATE FILED

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W. - Room 222
Washington, D.C. 20554

RECEIVED

JUL 21 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: CC Docket Nos 96-45 & 97-160

ORIGINAL

Dear Ms. Salas:

On Sunday, July 19, Mr. Ed Lowry and Mr. Frank Gumper, representing Bell Atlantic, met with Ms. Martha Hogerty, Public Counsel for the State of Missouri and member of the Federal/State Joint Board in CC. Docket 96-45. The discussion concerned the filing made by Bell Atlantic on May 15 in the items captioned above and our discussions with her on June 15 in Seattle. The attached material served as the basis for the presentation during each meeting.

Any questions on this filing should be directed to me at either the address or at 202-336-7875.

Sincerely,

A handwritten signature in cursive script, appearing to read "Tracy Chaney".

Attachments

cc: M. Hogerty

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Bell Atlantic's Modifications to the Ad Hoc Proposal

- Bell Atlantic's modifications to Ad Hoc's Proposal were filed at the Federal Communications Commission on May 15, 1998. The Bell Atlantic proposal provides a reasonable alternative to maintain high cost funding at the existing level (\$1.7B) as opposed to alternative proposals that suggest funding above \$6B. This proposal is consistent with Bell Atlantic's policy of developing a sufficient fund that is targeted to states. In addition, these modifications address significant cost differences among states and minimize the flow between the states.
- Attachment 1 provides a summary of the modified federal Universal Service Fund by state.

The following are the highlights of Bell Atlantic's proposed modifications to the Ad Hoc platform:

- Produces a fund size of approximately \$1.7B, which includes LTS, high cost and DEM. Ad Hoc's high cost proposal produces a fund size of approximately \$2.3B when Long Term Support (LTS) is added back into their high cost results.
- This plan uses a statewide weighted average of 50% actual cost and 50% forward-looking cost (a combined HAI 5.0a and BCPM 3.1).
 - Use of any one proxy model carries a significant risk of over-estimating or under-estimating the amount of high-cost support that is needed. (Attachment 5)
 - Averaging of the proxy models and combining with actual costs results in no one proxy model weighted more than 25% and smooths out the variances between models.
 - Calculating statewide costs further mitigates the large variances associated with smaller geographical areas.
 - In contrast, the Ad Hoc proposal now uses the latest Hatfield Model (HAI 5.0a), which tends to underestimate forward-looking costs.
- Incorporates the current threshold cost benchmark of 115% of the nationwide average cost to determine today's high cost fund to recover all costs above the benchmark.. Revenues vary depending upon state pricing policies, while costs remain relatively stable. As such, the benchmark should be based on statewide average costs and not revenues.
- The plan provides for different transition plans for rural and non-rural companies.
 - Non-rural companies are defined as operating companies with greater than 100K lines at the statewide level and/or companies having 1 million or more lines at the holding company level.
 - The change in universal service funding for non-rural companies is phased in over three years. Current funding levels are not maintained indefinitely.

- Rural companies support continues at current levels for at least three years. The FCC will evaluate rural companies in a separate proceeding.
- The Bell Atlantic modifications will keep insular, high cost areas such as Alaska, Hawaii, Guam, Puerto Rico, Micronesia, and the Virgin Islands at current funding levels. The basis for this decision is that forward-looking models either do not calculate costs for these areas or have not yet incorporated the costs associated with all of their operating companies.

Bell Atlantic's modifications to Ad Hoc's Proposal provide the following benefits:

- Keeps the fund to a sufficient and manageable size, and would not place an excessive burden on ratepayers or cause massive revenue shifts.
- Better targets high-cost states.
- Maintains federal/state partnership.
- Provides for a transition to allow policymakers and companies to adjust.
- Creates a simple plan that can be implemented by January 1999.

50% Combined and 50% Embed. AMC
Benchmark = \$35 (115%)

BA Proposal

Attachment 1
USF Calculations USAC Loops

State	Current Support	Proposed Support	Change Over 3 Years
AK	\$82,597,804	\$82,597,804.00	\$0
AL	\$39,274,880	\$25,386,868.98	(\$13,887,991)
AR	\$70,701,192	\$95,034,805.20	\$24,333,613
AZ	\$28,723,808	\$10,189,832.00	(\$18,533,976)
CA	\$55,285,308	\$30,822,924.00	(\$24,462,384)
CO	\$45,893,436	\$41,073,084.00	(\$4,820,352)
CT	\$1,399,680	\$1,399,680.00	\$0
DC	\$0	\$0.00	\$0
DE	\$0	\$0.00	\$0
FL	\$24,235,140	\$16,983,092.00	(\$7,272,048)
GA	\$72,279,888	\$49,480,556.00	(\$22,819,332)
HI	\$897,516	\$897,516.00	\$0
IA	\$27,500,136	\$29,088,288.80	\$1,588,153
ID	\$28,938,632	\$22,774,255.92	(\$6,162,376)
IL	\$21,584,928	\$19,984,484.00	(\$1,620,444)
IN	\$16,500,984	\$15,503,484.00	(\$997,500)
KS	\$57,721,656	\$42,638,098.31	(\$15,082,558)
KY	\$25,811,804	\$43,288,057.12	\$17,654,253
LA	\$87,814,840	\$85,039,544.00	(\$2,575,296)
MA	\$417,600	\$417,600.00	\$0
MD	\$588,636	\$588,636.00	\$0
ME	\$18,551,732	\$34,744,957.02	\$18,193,225
MI	\$33,870,200	\$29,644,908.00	(\$4,025,292)
MN	\$37,414,656	\$33,343,980.00	(\$4,070,676)
MO	\$50,440,580	\$28,167,648.00	(\$22,272,912)
MS	\$28,165,488	\$101,908,173.71	\$73,740,688
MT	\$44,155,088	\$87,481,718.05	\$23,328,648
NC	\$40,577,496	\$22,688,872.00	(\$17,910,624)
ND	\$21,197,016	\$41,028,121.18	\$19,832,105
NE	\$19,708,684	\$44,781,344.10	\$25,074,680
NH	\$9,048,716	\$8,177,904.00	(\$888,812)
NJ	\$3,282,276	\$1,153,298.00	(\$2,128,980)
NM	\$35,243,244	\$37,201,343.40	\$1,958,099
NV	\$8,859,732	\$7,675,524.00	(\$1,184,208)
NY	\$37,931,772	\$24,083,412.00	(\$13,848,380)
OH	\$14,786,612	\$14,786,612.00	\$0
OK	\$59,899,752	\$45,789,178.00	(\$14,130,578)
OR	\$37,091,748	\$34,728,912.00	(\$2,362,836)
PA	\$25,552,656	\$15,280,380.00	(\$10,272,276)
PR	\$145,852,320	\$145,852,320.00	\$0
RI	\$0	\$0.00	\$0
SC	\$45,209,328	\$35,665,489.82	(\$9,543,838)
SD	\$16,806,792	\$44,830,724.15	\$27,823,932
TN	\$27,786,632	\$27,786,632.00	\$0
TX	\$124,215,300	\$91,359,504.00	(\$32,855,796)
UT	\$8,403,012	\$8,403,012.00	\$0
VA	\$13,671,552	\$8,995,884.00	(\$4,675,668)
VT	\$11,843,472	\$27,791,154.72	\$15,947,683
WA	\$43,494,372	\$17,281,152.00	(\$26,213,220)
WI	\$51,445,152	\$45,912,648.00	(\$5,532,504)
WV	\$21,184,280	\$64,383,745.31	\$43,209,485
WY	\$21,358,524	\$29,272,605.21	\$7,914,081
St, DC & PR	\$1,702,569,552	\$1,713,045,361	\$10,475,809
GU	\$1,085,924	\$1,085,924	\$0
MCR	\$4,910,796	\$4,910,796	\$0
VI	\$16,245,684	\$16,245,684	\$0
Total	\$1,724,791,956	\$1,735,267,765	\$10,475,809

Proposed Modifications to Ad Hoc's Plan

Attachment 2

A	B	C	D	E	F	G	H
State	USAC Loops & Subsidy			Calc. New Statewide USF Sub.		Proposed Support	Change over 3 Years
	Sum of USF Loops	Current Statewide Subsidy, Annualized (USF, DEM, LTS)	Hold Harmless for Small Companies	50% Comb & 50% Actual AMC	New Statewide USF using 50% Comb & 50% Actual AMC		
AK	377,416	\$62,597,804	\$62,597,804	\$36.50	\$62,597,804.00	\$62,597,804	\$0
AL	2,312,101	\$39,274,880	\$22,682,400	\$36.22	\$25,386,888.98	\$25,386,889	(\$13,887,991)
AR	1,318,280	\$70,701,192	\$36,147,528	\$43.01	\$66,034,805.20	\$66,034,805	\$24,333,613
AZ	2,541,549	\$28,723,608	\$10,189,632	\$32.02	\$0.00	\$10,189,632	(\$18,533,976)
CA	20,809,546	\$55,285,308	\$30,822,924	\$24.56	\$0.00	\$30,822,924	(\$24,462,384)
CO	2,452,764	\$45,893,436	\$41,073,084	\$34.23	\$0.00	\$41,073,084	(\$4,820,352)
CT	2,010,578	\$1,399,680	\$1,399,680	\$30.17	\$0.00	\$1,399,680	\$0
DC	901,311	\$0	\$0	\$17.43	\$0.00	\$0	\$0
DE	507,860	\$0	\$0	\$24.95	\$0.00	\$0	\$0
FL	9,897,855	\$24,235,140	\$16,963,092	\$29.14	\$0.00	\$16,963,092	(\$7,272,048)
GA	4,513,317	\$72,279,888	\$49,460,556	\$34.35	\$0.00	\$49,460,556	(\$22,819,332)
HI	683,630	\$897,516	\$897,516	\$32.09	\$897,516.00	\$897,516	\$0
IA	1,539,592	\$27,500,136	\$25,889,916	\$37.10	\$29,088,288.80	\$29,088,289	\$1,598,153
ID	642,252	\$28,938,632	\$18,425,936	\$38.94	\$22,774,255.92	\$22,774,256	(\$6,162,376)
IL	7,714,111	\$21,584,928	\$19,984,484	\$28.11	\$0.00	\$19,984,484	(\$1,620,444)
IN	3,342,142	\$18,500,984	\$15,503,484	\$30.62	\$0.00	\$15,503,484	(\$307,500)
KS	1,523,388	\$57,721,856	\$39,281,888	\$38.11	\$42,839,098.31	\$42,839,098	(\$15,082,558)
KY	1,988,504	\$25,611,804	\$11,208,288	\$37.42	\$43,288,057.12	\$43,288,057	\$17,654,253
LA	2,340,006	\$87,614,840	\$65,039,544	\$35.05	\$1,053,002.70	\$65,039,544	(\$2,575,296)
MA	4,273,166	\$417,600	\$417,600	\$26.88	\$0.00	\$417,600	\$0
MD	3,344,003	\$588,636	\$588,636	\$25.98	\$0.00	\$588,636	\$0
ME	775,211	\$16,551,732	\$16,335,516	\$39.98	\$34,744,957.02	\$34,744,957	\$18,193,225
MI	8,028,449	\$33,870,200	\$29,844,908	\$28.34	\$0.00	\$29,844,908	(\$4,025,292)
MN	2,773,994	\$37,414,656	\$33,343,980	\$32.61	\$0.00	\$33,343,980	(\$4,070,676)
MO	3,192,721	\$50,440,580	\$28,167,648	\$34.85	\$0.00	\$28,167,648	(\$22,272,932)
MS	1,270,809	\$28,165,488	\$16,627,044	\$43.91	\$101,908,173.71	\$101,908,174	\$73,740,686
MT	488,487	\$44,155,068	\$42,809,556	\$50.35	\$67,481,716.05	\$67,481,716	\$23,326,648
NC	4,453,425	\$40,577,488	\$22,686,872	\$34.42	\$0.00	\$22,686,872	(\$17,910,624)
ND	383,678	\$21,197,016	\$21,197,016	\$46.58	\$41,029,121.16	\$41,029,121	\$19,832,105
NE	958,710	\$19,708,664	\$18,646,644	\$40.19	\$44,781,344.10	\$44,781,344	\$25,074,680
NH	770,057	\$9,046,716	\$8,177,904	\$34.53	\$0.00	\$8,177,904	(\$868,812)
NJ	5,894,627	\$3,282,276	\$1,153,286	\$23.25	\$0.00	\$1,153,286	(\$2,128,980)
NM	862,940	\$35,243,244	\$26,002,800	\$39.79	\$37,201,343.40	\$37,201,343	\$1,958,099
NV	1,122,489	\$8,859,732	\$7,875,524	\$25.88	\$0.00	\$7,875,524	(\$1,184,208)
NY	12,308,488	\$37,931,772	\$24,063,412	\$29.58	\$0.00	\$24,063,412	(\$13,848,360)
OH	8,488,115	\$14,766,612	\$14,766,612	\$29.23	\$0.00	\$14,766,612	\$0
OK	1,889,887	\$59,898,752	\$45,769,176	\$37.69	\$45,285,122.27	\$45,769,176	(\$14,130,576)
OR	1,909,459	\$37,091,748	\$34,728,912	\$33.79	\$0.00	\$34,728,912	(\$2,362,836)
PA	7,669,723	\$25,552,656	\$15,280,380	\$25.86	\$0.00	\$15,280,380	(\$10,272,276)
PR	1,188,082	\$145,852,320	\$145,852,320	\$38.85	\$145,852,320.00	\$145,852,320	\$0
RI	825,327	\$0	\$0	\$27.68	\$0.00	\$0	\$0
SC	2,042,697	\$45,209,328	\$28,352,844	\$36.94	\$35,665,488.62	\$35,665,489	(\$9,543,838)
SD	395,137	\$16,806,792	\$16,806,792	\$47.55	\$44,630,724.15	\$44,630,724	\$27,823,932
TN	3,161,392	\$27,766,632	\$27,766,632	\$33.42	\$0.00	\$27,766,632	\$0
TX	11,286,718	\$124,215,300	\$91,359,504	\$32.34	\$0.00	\$91,359,504	(\$32,855,796)
UT	1,022,290	\$8,403,012	\$8,403,012	\$30.62	\$0.00	\$8,403,012	\$0
VA	4,166,624	\$13,671,552	\$9,995,884	\$29.63	\$0.00	\$9,995,884	(\$4,675,668)
VT	380,284	\$11,843,472	\$9,869,256	\$43.12	\$27,791,154.72	\$27,791,155	\$15,947,683
WA	3,333,124	\$43,494,372	\$17,281,152	\$31.40	\$0.00	\$17,281,152	(\$26,213,220)
WI	3,172,890	\$51,445,152	\$45,912,648	\$30.36	\$0.00	\$45,912,648	(\$5,532,504)
WV	930,411	\$21,184,260	\$3,124,524	\$42.69	\$64,383,745.31	\$64,383,745	\$43,209,485
WY	272,633	\$21,358,524	\$16,614,036	\$46.93	\$29,272,605.21	\$29,272,605	\$7,914,081
St. DC & PR	166,250,030	\$1,702,569,552	\$1,293,928,596	\$30.36	\$1,042,763,314	\$1,713,045,360	\$10,475,808
GU	0	\$1,065,924	\$1,065,924	n/a	\$1,065,924	\$1,065,924	\$0
MCR	18,837	\$4,910,796	\$4,910,796	n/a	\$4,910,796	\$4,910,796	\$0
VI	58,315	\$18,245,684	\$18,245,684	n/a	\$18,245,684	\$18,245,684	\$0
Total	166,327,182	\$1,724,791,956	\$1,316,151,000	n/a	\$1,064,985,718	\$1,735,287,764	\$10,475,808

Impact Summary By State
Benchmark = \$35 (115%)

Attachment 3
USF Results

State	Increased Level of Funding
MS	\$73,740,686
WV	\$43,209,485
SD	\$27,823,932
NE	\$25,074,680
AR	\$24,333,613
MT	\$23,326,648
ND	\$19,832,105
ME	\$18,193,225
KY	\$17,654,253
VT	\$15,947,683
WY	\$7,914,081
NM	\$1,958,099
IA	\$1,598,153

State	No Impact on Funding
AK	\$0
CT	\$0
DC	\$0
DE	\$0
HI	\$0
MA	\$0
MD	\$0
OH	\$0
PR	\$0
RI	\$0
TN	\$0
UT	\$0

Impact Summary By State
Benchmark = \$35 (115%)

Attachment 3
USF Results

State	Decreased Level of Funding
NH	(\$868,812)
IN	(\$997,500)
NV	(\$1,184,208)
IL	(\$1,620,444)
NJ	(\$2,128,980)
OR	(\$2,362,836)
LA	(\$2,575,296)
MI	(\$4,025,292)
MN	(\$4,070,676)
VA	(\$4,675,668)
CO	(\$4,820,352)
WI	(\$5,532,504)
ID	(\$6,162,376)
FL	(\$7,272,048)
SC	(\$9,543,838)
PA	(\$10,272,276)
NY	(\$13,848,360)
AL	(\$13,887,991)
OK	(\$14,130,576)
KS	(\$15,082,558)
NC	(\$17,910,624)
AZ	(\$18,533,976)
MO	(\$22,272,912)
GA	(\$22,819,332)
CA	(\$24,462,384)
WA	(\$26,213,220)
TX	(\$32,855,796)

Non-Rural Holding Companies

1 Million of More USAC Loops Nationally

Holding Company Name	USAC Loops
BELL ATLANTIC	38,042,224
SOUTHWESTERN BELL	31,551,489
BELLSOUTH	22,079,006
AMERITECH	19,686,102
GTE CORPORATION	17,403,205
US WEST	15,118,481
SPRINT	7,134,587
SOUTHERN NEW ENGLAND TELEPHONE	1,990,248
ALLTEL SERVICE CORP	1,634,560
PUERTO RICO TEL CO	1,188,082

100k - 1 Million of More USAC Loops Nationally

Holding Company Name	USAC Loops
FRONTIER CORPORATION	976,115
CINCINNATI BELL	941,316
CITIZENS UTILITIES	864,563
PACIFIC TELECOM INC	514,808
TDS TELECOM	477,695
CENTURY TELEPHONE	468,815
ALIANTE COMMUNICATIONS CO.	269,410
COMMONWEALTH TEL CO	239,060
ANCHORAGE TEL UTILITY	157,299
NORTH STATE TEL CO	111,774
ROSEVILLE TEL CO	103,468
ROCK HILL TELEPHONE	101,747

Comparison of HAI 5.0a and BCPM 3.1 Model Results By State

Attachment 5

State	Current Statewide Subsidy, Annual (USF, DEM, LTS)	BCPM 3.1 Cost Above 115% of Average	HAI 5.0a Cost Above 115% of Average
AK	\$62,597,604	\$0	\$0
AL	\$39,274,860	\$152,188,495	\$126,992,274
AR	\$70,701,192	\$218,950,068	\$116,228,336
AZ	\$28,723,608	\$0	\$0
CA	\$55,285,308	\$0	\$0
CO	\$45,893,436	\$0	\$0
CT	\$1,399,680	\$0	\$0
DC	\$0	\$0	\$0
DE	\$0	\$0	\$0
FL	\$24,235,140	\$0	\$0
GA	\$72,279,888	\$0	\$0
HI	\$897,516	\$0	\$0
IA	\$27,500,136	\$214,800,159	\$111,552,492
ID	\$28,936,632	\$49,199,630	\$59,249,906
IL	\$21,584,928	\$0	\$0
IN	\$16,500,984	\$0	\$0
KS	\$67,721,656	\$75,400,422	\$112,197,939
KY	\$25,611,804	\$134,792,841	\$63,198,388
LA	\$67,614,840	\$0	\$0
MA	\$417,600	\$0	\$0
MD	\$588,636	\$0	\$0
ME	\$16,551,732	\$54,065,464	\$58,096,845
MI	\$33,670,200	\$0	\$0
MN	\$37,414,656	\$45,280,654	\$63,792,371
MO	\$50,440,560	\$113,821,889	\$71,267,931
MS	\$28,165,488	\$216,088,713	\$142,120,937
MT	\$44,155,068	\$95,530,200	\$176,197,337
NC	\$40,577,496	\$0	\$72,106,943
ND	\$21,197,016	\$76,698,494	\$143,408,563
NE	\$19,706,864	\$74,939,491	\$149,462,106
NH	\$9,046,716	\$0	\$0
NJ	\$3,282,276	\$0	\$0
NM	\$35,243,244	\$43,262,499	\$85,345,666
NV	\$8,859,732	\$0	\$0
NY	\$37,931,772	\$0	\$0
OH	\$14,766,812	\$0	\$0
OK	\$59,899,752	\$151,393,528	\$119,521,033
OR	\$37,091,748	\$0	\$0
PA	\$25,552,656	\$0	\$0
PR	\$145,852,320	\$0	\$0
RI	\$0	\$0	\$0
SC	\$45,209,328	\$63,294,482	\$14,273,046
SD	\$16,806,792	\$94,709,493	\$138,214,018
TN	\$27,766,632	\$15,420,215	\$14,579,688
TX	\$124,215,300	\$0	\$0
UT	\$8,403,012	\$0	\$0
VA	\$13,671,552	\$0	\$0
VT	\$11,843,472	\$39,495,205	\$23,270,357
WA	\$43,494,372	\$0	\$0
WI	\$51,445,152	\$8,180,374	\$0
WV	\$21,184,260	\$144,567,554	\$100,460,881
WY	\$21,358,524	\$33,083,223	\$51,622,946
St. DC & PR	\$1,702,569,552	\$2,114,943,093	\$2,013,160,003

The subsidy amount for each state equals the respective proxy model's statewide cost in excess of 115% of the model generated national average. In addition, the subsidy was calculated using each model's individual loop c

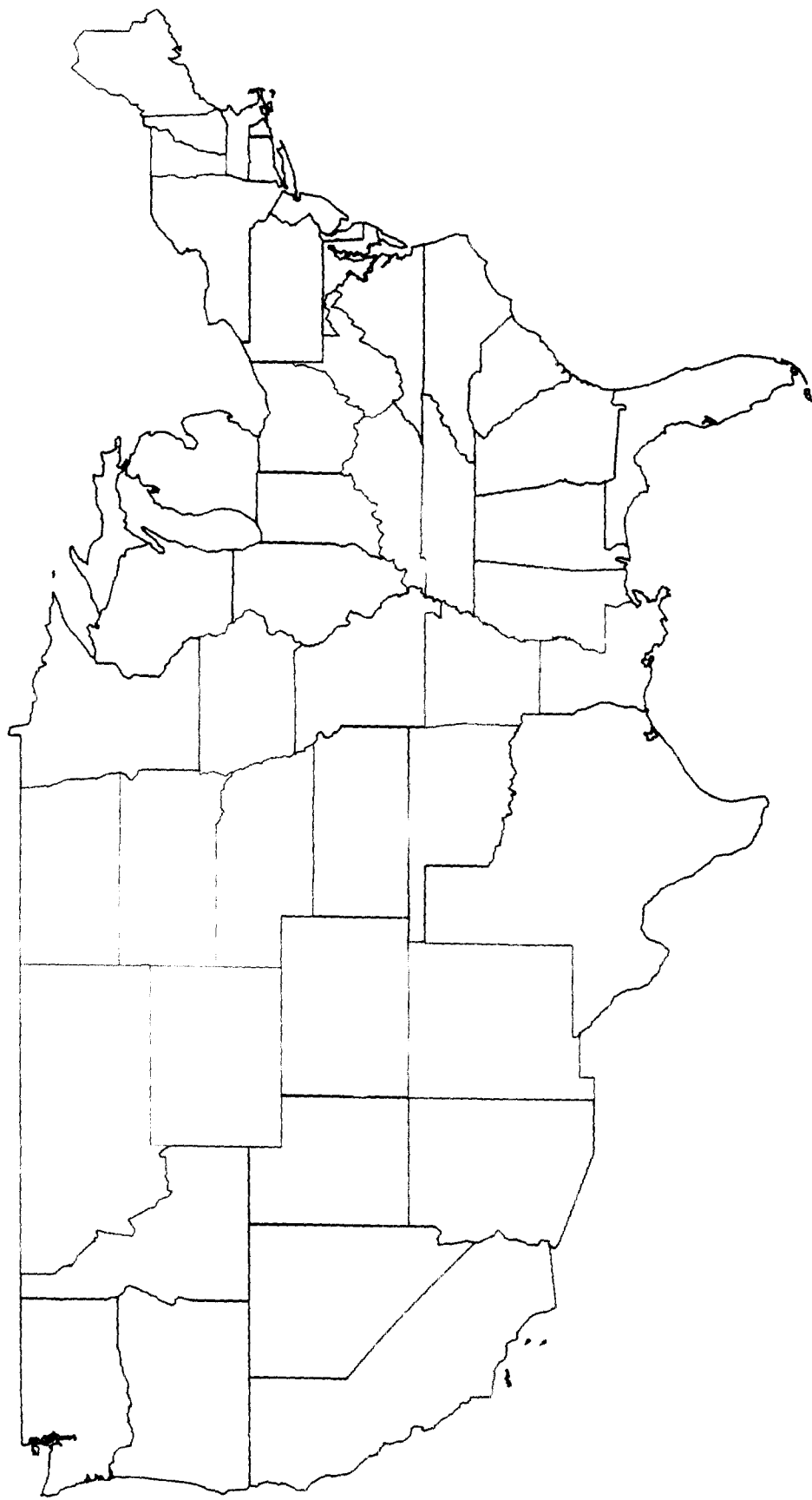
1997 Per Capita Income

National Ranking

	States	1997
1	Mississippi	\$18,272
2	West Virginia	\$18,957
3	Alabama	\$19,585
4	New Mexico	\$19,587
5	Montana	\$20,046
6	North Dakota	\$20,271
7	Utah	\$20,432
8	Idaho	\$20,478
9	Oklahoma	\$20,556
10	Kentucky	\$20,657
11	Louisiana	\$20,680
12	South Carolina	\$20,755
13	Alabama	\$20,842
14	South Dakota	\$21,447
15	Illinois	\$22,078
16	Arizona	\$22,364
17	Washington	\$22,648
18	Tennessee	\$23,018
19	Arkansas	\$23,102
20	North Carolina	\$23,345
21	Vermont	\$23,401
22	Indiana	\$23,604
23	Texas	\$23,656
24	Nebraska	\$23,803
25	Missouri	\$24,001
26	Georgia	\$24,061
27	Kansas	\$24,379
28	Oregon	\$24,393
29	Wisconsin	\$24,475
30	Ohio	\$24,661
31	Florida	\$25,255
32	Alaska	\$25,305
33	Michigan	\$25,560
34	Rhode Island	\$25,760
35	Hawaii	\$26,034
36	Pennsylvania	\$26,058
37	Virginia	\$26,438
38	California	\$26,570
39	Washington	\$26,718
40	Nevada	\$26,791
41	Minnesota	\$26,797
42	Colorado	\$27,051
43	New Hampshire	\$28,047
44	Illinois	\$28,202
45	Maryland	\$28,969
46	Delaware	\$29,022
47	New York	\$30,752
48	Massachusetts	\$31,524
49	New Jersey	\$32,654
50	District of Columbia	\$35,852
51	Connecticut	\$36,263

United States \$25,598

Funding Level Impact



Increased